



Financial Statements

December 31, 2012 and 2011

Richmond Lake Sanitary District

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Independent Auditor's Report

To the Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Richmond Lake Sanitary District (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Richmond Lake Sanitary District, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
July 24, 2013

Richmond Lake Sanitary District
Statements of Net Position – Proprietary Fund
December 31, 2012 and 2011

	Enterprise Fund	
	2012	2011
Assets		
Current Assets		
Cash and deposits	\$ 157,802	\$ 159,728
Accounts receivable	11,139	9,597
Notes receivable - current portion	4,329	6,475
Taxes receivable - current	27,316	25,892
Taxes receivable - delinquent	563	761
Inventories	24,155	24,911
Certificate of deposit	54,703	53,045
Total current assets	280,007	280,409
Property and Equipment, at Cost		
Piping and appurtenances	840,629	840,629
Lift stations	212,803	212,803
Residential pump stations	440,932	440,932
Fencing and gates	37,594	37,594
Manholes	105,843	105,843
Pond structures	15,024	15,024
Wastewater stabilization pond facility	191,023	191,023
Pumps, panels, and septic tanks	113,971	97,301
Office furniture and equipment	12,433	11,823
Buildings	899	899
Land rights and easements	21,000	21,000
Construction in process	21,453	3,333
Total property and equipment, at cost	2,013,604	1,978,204
Accumulated depreciation	(1,060,265)	(983,013)
Total property and equipment, at cost	953,339	995,191
Other Assets		
Notes receivable - noncurrent portion	11,231	15,879
Security deposit	64	64
Prepaid storage	220	385
Total other assets	11,515	16,328
	<u>\$ 1,244,861</u>	<u>\$ 1,291,928</u>

Richmond Lake Sanitary District
Statements of Net Position – Proprietary Fund
December 31, 2012 and 2011

	Enterprise Fund	
	2012	2011
Liabilities and Net Position		
Current Liabilities		
Unearned revenue	\$ 31,092	\$ 24,485
Accounts payable	508	28
Payroll taxes payable	1,439	1,685
Total current liabilities	33,039	26,198
Net Position		
Net investment in capital assets	953,339	995,191
Unrestricted	258,483	270,539
Total net position	1,211,822	1,265,730
	<u>\$ 1,244,861</u>	<u>\$ 1,291,928</u>

Richmond Lake Sanitary District
Statements of Revenues, Expenses and Changes in Net Position – Proprietary Fund
Years Ended December 31, 2012 and 2011

	Enterprise Fund	
	2012	2011
Operating Revenue		
Hook-up fees	\$ 9,000	\$ 5,000
User fees	115,648	110,374
Late fees	1,450	1,460
Septic tank replacement fees	19,296	19,321
Miscellaneous income	23	547
Maintenance fees	8,077	5,630
Total operating revenue	153,494	142,332
Operating Expenses		
Wages	19,326	18,022
Professional fees	11,727	20,544
Postage and office supplies	961	1,364
Insurance	4,216	4,677
Utilities	6,014	4,964
Public notices and elections	78	177
Taxes	1,479	1,379
Printing	116	50
Repairs and maintenance	104,659	101,978
Miscellaneous expense	775	360
Bank service charges	418	484
Mileage	3,376	1,516
Office rent	5,864	5,400
Sales tax	716	330
Storage fee	825	495
Bad debt expense	-	1,788
Depreciation	77,252	76,150
Total operating expenses	237,802	239,678
Operating Loss	(84,308)	(97,346)
Nonoperating Revenues (Expenses)		
Interest income	3,211	3,873
Grant income	-	6,000
Taxes	27,189	27,170
Total nonoperating revenues (expenses)	30,400	37,043
Change in Net Position	(53,908)	(60,303)
Net Position, Beginning of Year	1,265,730	1,326,033
Net Position, End of Year	\$ 1,211,822	\$ 1,265,730

Richmond Lake Sanitary District
Statements of Cash Flows – Proprietary Fund
Years Ended December 31, 2012 and 2011

	Enterprise Fund	
	2012	2011
Operating Activities		
Receipts from customers	\$ 158,558	\$ 149,295
Payments to employee	(21,051)	(21,821)
Payments to suppliers	(138,344)	(166,768)
Net Cash used for Operating Activities	(837)	(39,294)
Noncapital Financing Activities		
Taxes received	25,963	24,802
Net Cash from Noncapital Financing Activities	25,963	24,802
Capital and Related Financing Activities		
Purchase of capital assets	(35,400)	(16,342)
Grant proceeds	-	6,000
Net Cash used for Capital and Related Financing Activities	(35,400)	(10,342)
Investing Activities		
Interest received	1,555	2,328
Principal payments received on notes receivable	6,793	11,564
Net Cash from Investing Activities	8,348	13,892
Net Change in Cash	(1,926)	(10,942)
Cash at Beginning of Year	159,728	170,670
Cash at End of Year	\$ 157,802	\$ 159,728
Reconciliation of Operating Income to Net		
Cash used for Operating Activities		
Operating loss	\$ (84,308)	\$ (97,346)
Charges and credits to operating loss not affecting cash:		
Depreciation expense	77,252	76,150
Changes in assets and liabilities:		
Accounts receivable	(1,542)	1,432
Inventories	756	(5,757)
Other assets	165	(165)
Unearned revenue	6,607	5,531
Accounts payable	480	(16,719)
Accrued liabilities	(246)	(2,420)
Net Cash used for Operating Activities	\$ (836)	\$ (39,294)

Note 1 - Significant Accounting Policies

The accounting policies of Richmond Lake Sanitary District (the District) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, the District should include all component units over which the District exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

Based on criteria of GASB Statement No. 14, no legally separate organizations were determined to be part of the reporting entity.

Basis of Presentation

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard setting body for governmental accounting and reporting.

The statements of net position and revenues, expenses and changes in net position present the business-type activities of the District, which are all of the financial activities and represent the government-wide and fund financial statements.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering items in connection with a proprietary fund's principal ongoing operations. The District records all revenues derived from fees as operating revenues since these revenues are generated from the District's daily operations needed to carry out its purpose. Operating expenses include administrative, operating and maintenance expenses related to operation of the District's sanitary system.

Enterprise Fund: Financial activities operated similarly to private business enterprises and financed through fees and charges assessed primarily to users of the services are presented as enterprise funds.

The District has one enterprise fund, which is reported as a major fund, to record the transactions related to operating a sanitary sewer system through fees and charges to users of the system.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The enterprise fund presented using the economic resources measurement focus and the accrual basis of accounting.

Capital Assets

All capital assets are valued at historical cost. Interest costs incurred during construction of capital assets are capitalized along with other capital asset costs. The District's capitalization policy is \$400. Depreciation of all exhaustible capital assets used by the proprietary funds is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over estimated useful lives using the straight-line method as follows:

Piping and appurtenances	50 years
Lift and residential pump stations	5-20 years
Fencing, gates, manholes, pond structures, and septic tanks	20 years
Wastewater pond facility	20 years
Pumps and control panels	5-7 years
Office furniture and equipment	5-20 years
Buildings	39 years
Land rights and easements	99 years

Accumulated Unpaid Vacation and Sick Leave

Vacation and sick leave are not earned by employees of the District.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Unearned Revenues

Unearned revenues represent user, hookup, and maintenance fees received in advance.

Statements of Cash Flows

The District considers all amounts held in checking and savings accounts to be cash for purposes of the statements of cash flows.

Accounts Receivable

Accounts are charged-off as they are deemed uncollectible based on a periodic review of the accounts. The amount charged as bad debt in 2012 and 2011 was \$0 and \$1,788, respectively. At December 31, 2012 and 2011, no allowance for uncollectible accounts was considered necessary, as uncollectible amounts are not material.

Inventory

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO).

Net Position

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Position – Consists of position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Application of Net Position

It is the District’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense incurred for purposes for which both restricted and unrestricted net position are available.

Septic Tank Replacement Fee

The septic tank replacement fee is a monthly charge for all users. The money is then used to replace septic tanks when needed.

Rounding

Computer generated rounding variances exist in the financial statements. The variances result from values being entered with cents rather than as whole numbers.

Note 2 - Deposits And Investments, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits

The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Custodial Credit Risk – Deposits

The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2012, the District maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6 A-3.

The actual bank balances at December 31, 2012 and 2011 were as follows:

	2012	2011
Insured (FDIC/NCUA)	\$ 213,397	\$ 213,579

The District's carrying amounts of deposits at December 31, 2012 and 2011 were \$212,505 and \$212,773, respectively.

Investments

In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2012 and 2011, the District did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The District also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

Note 3 - Organization

An election on June 16, 1992 authorized the District to operate a sanitary sewer system pursuant to South Dakota Codified Law (SDCL) 34A-5-41. In accordance with SDCL 34A-5-14.1, the District is governed by an elected three-member Board of Trustees.

Note 4 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the District's taxes and remits them to the District. The District's property tax revenues are recognized in accordance with the accrual basis of accounting. The District is permitted by state statute to levy taxes. The District has elected to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the District.

	2012	2011
General Fund		
Agricultural property	\$ 0.714	\$ 0.667
Owner occupied	0.714	0.667
Nonagricultural property	0.714	0.667

Note 5 - Notes Receivable

The District has notes receivable from property owners within the District for debt service assessments relating to construction of the system. The notes accrue interest at 5.75% and are due at varying dates in the future depending on the repayment terms selected by the property owners. The notes are presented in the financial statements as follows:

	2012	2011
Current portion	\$ 4,329	\$ 6,475
Noncurrent portion	11,231	15,879
	<u>\$ 15,560</u>	<u>\$ 22,354</u>

Note 6 - Changes in Capital Assets

A summary of changes in capital assets for the years ended December 31, 2012 and 2011 are as follows:

Proprietary Fund	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated:				
Land rights	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in process	3,333	18,120	-	21,453
Total capital assets not being depreciated	4,333	18,120	-	22,453
Capital assets being depreciated:				
Piping and appurtenances	840,629	-	-	840,629
Lift stations	212,803	-	-	212,803
Residential pump stations	440,932	-	-	440,932
Fencing and gates	37,594	-	-	37,594
Manholes	105,843	-	-	105,843
Pond structures	15,024	-	-	15,024
Wastewater stabilization pond facility	191,023	-	-	191,023
Pumps, panels, and septic tanks	97,301	16,670	-	113,971
Office furniture and equipment	11,823	610	-	12,433
Land rights	20,000	-	-	20,000
Buildings	899	-	-	899
	1,973,871	17,280	-	1,991,151
Less accumulated depreciation	983,013	77,252	-	1,060,265
Total capital assets being depreciated, net	990,858	(59,972)	-	930,886
Proprietary fund activities capital assets, net	\$ 995,191	\$ (41,852)	\$ -	\$ 953,339
Total depreciation expense - proprietary fund activities				\$ 77,252

Proprietary Fund	Balance 01/01/11	Increases	Decreases	Balance 12/31/11
Capital assets, not being depreciated:				
Land rights	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in process	10,000	-	6,667	3,333
Total capital assets not being depreciated	11,000	-	6,667	4,333
Capital assets being depreciated:				
Piping and appurtenances	840,629	-	-	840,629
Lift stations	212,803	-	-	212,803
Residential pump stations	440,932	-	-	440,932
Fencing and gates	37,594	-	-	37,594
Manholes	105,843	-	-	105,843
Pond structures	15,024	-	-	15,024
Wastewater stabilization pond facility	191,023	-	-	191,023
Pumps, panels, and septic tanks	84,292	13,009	-	97,301
Office furniture and equipment	11,823	-	-	11,823
Land easements	20,000	-	-	20,000
Buildings	899	-	-	899
	1,960,862	13,009	-	1,973,871
Less accumulated depreciation	906,863	76,150	-	983,013
Total capital assets being depreciated, net	1,053,999	(63,141)	-	990,858
Proprietary fund activities capital assets, net	\$ 1,064,999	\$ (63,141)	\$ 6,667	\$ 995,191
Total depreciation expense - proprietary fund activities				\$ 76,150

Note 7 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2012 and 2011, the District managed its risks as follows:

Employee Health Insurance

The District does not provide health insurance benefits to its employees.

Liability Insurance

The District purchases liability insurance for risks related to torts; theft of or damage to property; automobile liability; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have never exceeded the liability coverage.

Worker's Compensation

The District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims from these risks have never exceeded the liability coverage.

Unemployment Benefits

The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The District elected not to designate equity for the payment of future unemployment benefits. During the years ended December 31, 2012 and 2011, no claims for unemployment benefits were paid. At December 31, 2012 and 2011, no claims had been filed for unemployment benefits and none are anticipated in the next year.

Note 8 - Commitments

Subsequent to 2012, the District committed a total of approximately \$276,400 for a wastewater system improvements project which will be funded by a loan from South Dakota Department of Environment & Natural Resources.

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Trustees
Richmond Lake Sanitary District
Aberdeen, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business activities of Richmond Lake Sanitary District (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 24, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying summary schedule of prior and current audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying summary schedule of prior and current findings as item 2012-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying summary schedule of prior and current audit findings as item 2012-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying summary schedule of prior and current audit findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
July 24, 2013

Prior Audit Findings

2011-1 Finding - Preparation of Financial Statements and Footnotes and Significant Journal Entries

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Status: The finding has not been corrected and has been restated as current audit finding 2012-1.

2011-2 Finding - Lack of Segregation of Duties

There was a lack of segregation of duties in the revenues, expenditure and payroll functions due to the size of the District.

Status: The finding has not been corrected and has been restated as current audit finding 2012-2.

Current Audit Findings

Finding 2012-1 - Preparation of Financial Statements and Footnotes and Significant Journal Entries

Material Weakness

Condition: Richmond Lake Sanitary District requested the external auditors to assist in the preparation of the financial statements and related footnotes. As part of the financial statement preparation process, we proposed a material audit adjustment that was not identified as a result of the District's existing internal controls and; therefore, could result in a misstatement of the District's financial statements.

Criteria: The District's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Cause: The District does not have adequate staff trained to prepare financial statements and the related footnotes and could cause the need for auditors to propose material journal entries.

Effect: This condition may affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.

Finding 2012-2 - Lack of Segregation of Duties

Significant Deficiency

Condition: Richmond Lake Sanitary District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The District has insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk that fraud or errors might occur in the financial reporting process.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the Board of Trustees exercise adequate oversight of the accounting function.

Management's Response: Management accepts the risk associated with lack of segregation of duties in the District.